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RRB Financial Reports

The Railroad Retirement Board (RRB) is required by law to submit annual reports to Congress on the financial condition of the railroad retirement system and the railroad unemployment insurance system. These reports must also include recommendations for any financing changes which may be advisable in order to ensure the solvency of the systems. In June, the RRB submitted its 2007 reports on the railroad retirement and unemployment insurance systems.

The following questions and answers summarize the findings of these reports.

1. What were the assets of the railroad retirement and railroad unemployment insurance systems last year?

As of September 30, 2006, total railroad retirement system assets, comprising assets managed by the National Railroad Retirement Investment Trust and the railroad retirement system accounts at the U.S. Treasury, equaled \$30.6 billion. The Trust was established by the Railroad Retirement and Survivors' Improvement Act of 2001 to manage and invest railroad retirement assets. The cash balance of the railroad unemployment insurance system was \$109.8 million at the end of fiscal year 2006.

2. What was the overall finding of the 2007 report on the financial condition of the railroad retirement system?

The 2007 report, which addressed railroad retirement financing during the next 25 years, was generally favorable, concluding that, barring a sudden, unanticipated, large decrease in railroad employment or substantial investment losses, the railroad retirement system will experience no cash-flow problems during the next 25 years. However, the 2007 report also indicated that the long-term stability of the system is still questionable. Under its current financing structure, actual levels of railroad employment and investment return over the coming years will largely determine whether corrective action is necessary.

3. What methods were used in forecasting the financial condition of the railroad retirement system?

The 2007 report projected the various components of income and outgo of the railroad retirement system under three employment assumptions for the 25 calendar years 2007-2031. The projections of these components were combined and the investment income calculated to produce the projected balances in the railroad retirement accounts at the end of each projection year.

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Projecting income and outgo under optimistic, moderate and pessimistic employment assumptions, the 2007 report indicated no cash-flow problems occur throughout the 25-year projection period under any of these assumptions.

4. How do the results of the 2007 report compare with those of the 2006 report?

The projected combined account balances are higher than in last year's report due largely to the actual investment return of approximately 14.4 percent exceeding the expected investment return of 7.5 percent in calendar year 2006, along with actual 2006 average employment exceeding the range projected for 2006.

5. Did the 2007 report on the railroad retirement system recommend any financing changes?

The report did not recommend any railroad retirement financing changes. The payroll tax adjustment mechanism provided by the 2001 legislation will automatically increase or decrease tax rates in response to changes in fund balance. Even under a pessimistic employment assumption, this mechanism is expected to prevent cash-flow problems for the duration of the 25-year projection period.

6. What were the findings of the 2007 report on the financial condition of the railroad unemployment insurance system?

The RRB's 2007 railroad unemployment insurance financial report was also generally favorable. Even as maximum benefit rates increase 49 percent (from \$57 to \$85) from 2006 to 2017, experience-based contribution rates are expected to keep the unemployment insurance system solvent. No new loans are anticipated even under the most pessimistic assumption.

Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. However, the system's experience-rating provisions, which adjust contribution rates for changing benefit levels, and its surcharge trigger for maintaining a minimum balance help to ensure financial stability in the advent of adverse economic conditions.

Under experience-rating provisions, each employer's contribution rate is determined by the RRB on the basis of benefit payments made to the railroad's employees. The report predicted that, even under the most pessimistic assumption, the average employer contribution rate remains well below the maximum throughout the projection period.

The report also predicted that the 1.5 percent surcharge in effect in calendar year 2007 will be followed by a 1.5 percent surcharge for calendar years 2008-2009. A 1.5 percent surcharge is also likely for calendar year 2010.

7. What methods were used to evaluate the financial condition of the railroad unemployment insurance system?

The economic and employment assumptions used in the unemployment insurance report corresponded to those used in the report on the retirement system. Projections were made for various components of income and outgo under each of three employment assumptions, but for the 11 fiscal years 2007-2017, rather than a 25-year period.

8. Did the 2007 report on the railroad unemployment insurance system recommend any financing changes to the system?

No financing changes were recommended at this time.

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The Railroad Retirement Board's 2007 financial reports on the retirement and unemployment insurance systems are available in their entirety on the agency's Web site at www.rrb.gov. Information on the National Railroad Retirement Investment Trust, including its quarterly and annual reports, is also available on the site.